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## COMPULSORY INSURANCE OF WORKMEN IN GERMANY.

ON the 17th of November, 1882, the Emperor William announced to the Imperial Diet that the Federal Council would present to them a series of laws to insure workmen against the evils of accident, sickness, weakness and old age. With that rescript Germany entered on a course of semi-socialistic legislation which, in the law to compel insurance and provide pensions for the invalid and aged, may have reached the end its venerable author sought. This act was passed on the 22d of June, 1889, and began its uncertain career on the first of January, 1891.

It is already clear that it is less easy to stop such a movement than to set it in motion. Bills for the protection of labor and the regulation of trade constantly extend the functions of an already paternal government. Germany has thus placed herself in a unique position, which her journalists are pleased to call the van of social progress, and she claims the credit of pointing the way to a solution of problems that perplex alike republic and empire. In what follows I shall try to give as brief an account as the subject allows of the laws now in force compelling insurance against sickness and accident, with the latest statistics of their practical working, but without the countless details which confuse even the officials who execute and the jurists who comment on the legislation. Since the benefits of the acts are in every case measured by wages, and since these lie at the base of the new pension law, it has seemed worth while to condense the latest available statistics of unskilled labor in all the states and also in the chief cities of the empire. These alone make it possible to judge the scope of the Aged and Invalid Pension Law, of whose effect on the laborer, the government and the tax-payer I shall present such a statement as the absence of practical experience permits. The three laws affect

in great measure the same persons, they supplement one another, and they all must be borne in mind in estimating the relations of the German workman to the state.

The modern sick funds find their historical background among the miners of Silesia.<sup>1</sup> In 1854 Prussia extended the system to other classes of workmen, made it obligatory and subjected it to state supervision. Bavaria adopted a similar but less stringent law in 1869. Prussia modified her law and dropped the obligatory feature in 1876, hoping to counteract socialistic agitation. These laws, however, proved unsuccessful in practice. Old men found it hard to secure admission into mutual organizations; young men chafed under political restrictions enforced by government supervision, while the relief afforded was too inadequate to prove a counter-attraction. Thus it happened that in January, 1882, from 30 to 40 per cent of the workmen of Berlin engaged in trades were not insured against sickness at all, and of the rest but a fraction were members of the registered clubs.<sup>2</sup> But the tendencies of government in Germany had become more and more paternal, free organization of labor was regarded as dangerous, and so it was determined to return to the compulsory law of 1854, but to extend and develop it for the whole empire. Thus while few features of the law of 1883 were new, its wide extent and compulsory character make it a legislative and perhaps a social landmark. As developed up to the present day this law applies to every German miner, factory or foundry hand; to all workmen engaged in the railroad, postal or steamboat service, in building trades, warehouses and dockyards; to all handicraftsmen, machinists, farm and forest laborers and, with some restrictions, to all household servants. Every such workman must if employed for more than one week and paid at a rate of less than 2000 marks annually, be a contributing member of some fund that will insure him against sickness.<sup>3</sup> Of such funds the law recognizes seven kinds, whose fees and benefits greatly vary.

<sup>1</sup> Schönberg, *Handbuch der Politischen Oekonomie*, article Arbeiterschutz.

<sup>2</sup> *Ibid.*

<sup>3</sup> *Reichsgesetzblatt*, 1883, p. 73; 1884, p. 71; 1885, pp. 5, 162. [For an English translation of the laws, see *Quarterly Journal of Economics*, vol. ii, pp. 111-120. — EDS.]

First there is the town fund (*Gemeindekrankenkasse*). Every township must form a sick fund, for which laborers not insured elsewhere may be taxed from one and a half to two per cent of the average wages of unskilled labor in that district. It may allow others to share voluntarily in the insurance, but it must make up any excess of expenses over receipts out of general taxation. Employers are responsible for the contributions of their employees, but on pay-day they can withhold from the wages from two-thirds to the whole of the contribution, according to the nature of the employment. They must report to the authorities all workmen employed by them, and must pay the contributions of such workmen until the announcement of their discharge. Such insurance as this would cost a workman earning 600 marks a year from nine to twelve marks.

The town fund is the base of the system, but it is meant for those only who cannot or will not find a place in the higher organizations which pay their own expenses and are therefore allowed, of course under the inevitable government supervision, to manage their own affairs and to fix their own fees and benefits. To these all laborers of the better class belong, for, as will appear presently, the unofficial organizations alone furnish really effective insurance. The largest of these semi-independent organizations is the local fund (*Ortskrankenkasse*). This demands an entrance fee, divides its members according to trades and to the risks of their occupations, and grades its fees accordingly. Separate funds (*Fabrikkrankenassen*, *Baukrankenassen*) are formed for workmen employed in factories and on railroads, canals or buildings. Their formation is obligatory when the work involves peculiar danger. Here the owner or contractor pays the cost of management, and he must meet any temporary advance of money that may be required.

The old miners' associations (*Knappschaften*), the trade funds (*Innungskrankenassen*) and the free funds (*Freikrankenassen*), for such laborers as preferred more freedom at greater expense, remained essentially unaltered by this law, which provided, however, that they must not give less aid than the town funds. As a matter of fact they usually gave more than any others. Most

vexatious police regulations have been devised, however, to discourage the free funds, and bills now under consideration will make them nearly impracticable. The government fears them as nurseries of political propaganda, and it stated openly as early as 1884 that "the whole idea of this legislation rests on conceptions opposed to free associations."<sup>1</sup> At present 39 per cent of all insured are in the local funds, 24 per cent in factory funds, 15 per cent in the free clubs, 12.5 per cent in town funds, 8 per cent in miners' associations and 1.5 per cent in trade and building funds.<sup>2</sup> This indicates the relative importance of the various organizations.

Before considering what these organizations cost, it is best to note the obligations which they assume, and which, in the main, they successfully meet. Workmen insured in the town fund can claim (1) free medical treatment, medicines and medical appliances, bandages and even spectacles; (2) from the third day of sickness till the end of the thirteenth week, if they are sick so long, one-half the local wages of unskilled labor in cash or, at the discretion of the fund, free hospital treatment. The money payment may be wholly or partially withdrawn where sickness is the result of drunkenness or criminal negligence, but the aid noted under (1) is given in every case. On the other hand, the fund has a claim on any damages that may be recovered by an injured man, and in estimating its claim may reckon the aid under (1) as worth one-half of that under (2).

The six mutual associations usually charge about three per cent of the wages actually received, but may charge much more, and in estimating either fees or aid they take no account of any excess over three marks in daily wages. They give the aid noted under (1), and may extend that under (2) to three-fourths of the normal wages of the man's class, and to six or even twelve months. In case of accident, however, this charge now falls on the employer after the thirteenth week of disability. It cannot exceed 2.25 marks daily, but the funds pay twenty days' wages on a member's death to his widow or for his

<sup>1</sup> *Arbeiterversicherungs-Gesetznovelle, Reichsgesetzblatt, 1884.*

<sup>2</sup> *Statistik des Reichsversicherungsamts, 1890.*

funeral, and furnish aid to a wife for from three to six weeks during confinement.

The thirteen weeks' care secured by this law puts the burden of 95 per cent of all accidents and sickness on the workman.<sup>1</sup> It has therefore no tendency to depress wages, but rather the contrary. Where disability is permanent, the accident and invalid insurance, whose incidence is different, takes up the work. Here careful investigation is necessary to fix the injury sustained and the aid to be granted, and time must be allowed the workman for an appeal if he thinks himself wronged. Meantime he needs immediate aid, and this he secures to himself by the sick fund.

The practical workings of the law may be briefly summarized. The latest statistics are for the year 1888.<sup>2</sup> In that year there were 20,268 organizations, insuring 5,920,568 persons, of whom 22 per cent were women. But while the average membership of all the funds was 288, that of the local funds alone was 587. During the year all these funds together had given care and partial wages to 1,762,520 persons for 29,528,770 days and had paid allowance for 44,500 deaths. In the town funds the average cost per day was 1.73 marks, of each sickness 27.07 marks; in the free clubs the averages rose to 1.90 and 42.44 marks. The daily cost reached its maximum, 2.50 marks, among factory hands. The total thus returned to the insured was 61,561,500, or 11.40 marks for each member. Management absorbed 4,503,300, and other expenses, including the reserve, 19,452,300 marks. Thus the entire outlay was 85,517,100, or 15.84 marks per man, so that the net immediate return was 72 per cent of the outlay. The income was 91,914,400, or 17.03 marks for each member; but of this the workmen furnished only 74,748,700, or 13.86 marks per man, the average varying from 9 and 7.05 in the town funds to 25.90 and 20 marks in the build-

<sup>1</sup> Statistik der entschädigungspflichtigen Unfälle im deutschen Reiche für 1887. Reichsversicherungsamt, 1890.

<sup>2</sup> Statistik des Reichsversicherungsamts, 1890. Also see Statistik der Krankenversicherung der Arbeiter für 1888, in Statistik des deutschen Reichs, published by the imperial statistical bureau; volume 46, new series.

ing funds. At the end of the year the reserve was 48,950,200 marks. Deducting the contribution of the towns and employers, it appears that everywhere except in the free clubs the average annual contribution was from 0.52 to 2.13 marks less than the return to the insured. The funds work cheaply and are not felt to be a burden by either employers or employed. They might be impracticable under other conditions or undesirable among those educated to self-help, but in Germany this beginning of the new era has proved almost an unmixed blessing. So much cannot be affirmed of the measures that followed, or prophesied of those that are planned.

Most members of the sick funds now enjoy insurance against accident through the laws of 1884, 1885 and 1886,<sup>1</sup> which affect about 4,500,000 men. Here the organization for agricultural laborers is in the hands of the provincial government, which collects contributions from the employers. Elsewhere the employers form trade associations (*Berufsgenossenschaften*), which raise and manage their own funds, subject to the supervision and in a measure to the control of the imperial insurance bureau (*Reichsversicherungsamt*). This bureau is composed of four members of the Federal Council and an equal number of employers and workmen, the latter chosen by the sick-fund committees, excluding the free clubs. It will be noted that while the workmen have a voice, the capitalists have a safe majority. Many states of the empire have organized state bureaus on a similar plan.

Under this law all employers are *de jure* members of some trade association. They must seek and can compel reception. The associations choose managing committees, and usually divide into local sections, which bear one-half their losses, while the general organization assumes the other half. In 1888 there were 350,697 such associations. The membership varies greatly. Miners count 348,707, chimney-sweeps but 5452. Hence, as will appear, they are operated with widely varying success.

An employer contributes according to the danger of his trade. Those who will not adopt the precautions demanded by

<sup>1</sup> *Reichsgesetzblatt*, 1884, p. 69; 1885, p. 159; 1886, p. 132. [English translation in *Quarterly Journal of Economics*, vol. ii, pp. 121-134. — Eds.]

the association are fined and their rates are raised. The rate so fixed is paid in full on all wages of less than four marks daily. An excess over four marks is reckoned at but one-third its actual amount; *e.g.* a wage of six marks is taxed as 4.67. The income may be used only for (1) expenses of management, (2) aid to the victims of accidents, (3) rewards to those who hinder accidents or aid the injured and (4) the maintenance of reserve funds. Nearly 500,000 marks were given as rewards under (3) in 1888. To prevent any possible (political) misuse of money, annual accounts are rendered to the central bureau, to which also the rules and regulations of each association must be submitted for approval, with the opinions on them of a committee of workmen.

The interests of the insured are supposed to be guarded by a workmen's committee, whose members are chosen by the sick funds and whose expenses, together with an allowance for wages, are paid by the association. The insured also appoint a delegate to share in the investigation of accidents. The workman's cause seems thus protected at every step, and this is necessary; for whatever he gets is at the expense of the employer. A last safeguard was sought in a board of arbitration, where, too, the workmen's delegates were paid by the association, while appeal to it was wholly free. The casting vote here, however, was with an official, and the men were not effectually protected from discharge or "blacklisting" if they proved unmanageable delegates; so that the interests of the employers have at least not been unduly imperilled.

In case of accident the sufferer, as we have seen, is cared for for thirteen weeks by his sick fund. But where the case seems likely to result in death or permanent injury an investigation is immediately begun by the police, who summon expert testimony when desired and communicate the results to the association. This body, when there is occasion, must proceed immediately to fix the damages and present to the injured man or to his heirs a clear account of what they mean to do. This must state the degree of injury assumed and the manner of estimating the aid. With this the man may appeal to the arbitrators and in some cases to the central bureau. Pending a final decision he will



receive whatever has been already granted. From the fifth to the thirteenth week of disability the association adds to the aid of the sick fund enough to make two-thirds of the man's normal earnings. After that it pays all costs of cure, with two-thirds wages for complete disability and in other cases a proportional sum. Here is a broad field for dispute and wrong. The associations are apt to avail themselves of it, and sometimes seek to avoid all payment by pleading that men have caused their injuries purposely.

The aid is given as a yearly pension, and in reckoning it any excess of earnings over four marks a day is counted at but one-third its actual amount, and 300 days are considered a year. Thus one earning 4.60 marks daily is held to earn  $4.20 \times 300$  per year, and for total disability he would get annually two-thirds of this, or 840 marks, paid in monthly rates in advance through the post-office. If he can earn anything *in any way*, his allowance is proportionally diminished. To estimate the efficiency of this insurance it is necessary to know the wages. The tables that follow suggest that the great majority of insured men must earn less than three marks a day. In that case the highest pension would be 50 marks per month.

In case of death 20 days' wages are given for the funeral, and 60 per cent of the pension may be continued to the dependents of the deceased. Of this, dependent parents or grandparents may claim one-third, the wife one-third and each child under fifteen one-fourth. Where there is not enough to meet all claims, the share of the children is reduced. *E.g.*, a man earns 4.60 marks daily. This is reckoned as  $4.20 \times 300 = 1260$  marks per year. Sixty per cent of this sum is 756 marks. A parent gets one-third, or 252 marks. But the remaining 504 marks are insufficient to pay one-third to the widow and one-fourth to each of two children. Their shares will be reduced one-fifth, to 201.40 and 151.20 marks. Should the parent die or one of the children pass fifteen, the others would get their full share. Where a boy is injured he gets a man's allowance after sixteen; but if he marries, neither widow nor children have any claim.

In accepting a pension the workman surrenders his right to

sue for damages, unless the police investigation shows malice or criminal negligence. Should he then recover enough, he must repay to the sick and accident funds all their advances. It was hoped that this provision would do away with one of the chief causes of irritation between capital and labor. It seemed to remove their personal opposition and to substitute on both sides an impersonal organization. The wage earner, it was urged, will stand no longer single-handed in an unequal legal contest with the resources of his employer, save where the police have given him presumptive right; he will secure justice without expense or personal opposition to his employer. Such were the hopes of the advocates of the law. Its workings have satisfied neither employers nor workmen.

To employers the cost of the system is often a grievous burden. In 1888<sup>1</sup> the accident associations paid for accidents 8,662,788, but had to raise 25,206,752 marks. The burden on industry was nearly thrice the benefit to the workmen. Much of this sum was destined for a reserve fund, but its loss is none the less real; for it is capital withdrawn from active use and earning at most three per cent. The actual annual expense for management, including the state subsidies and lost interest, was 4,500,000 marks — less than 18 per cent of the sum raised, but more than 50 per cent of the aid given. Judged by the smaller figure, the associations work more cheaply than private companies; but this is due entirely to the great industries. In textile branches, for instance, the total cost is 2.48 marks per man, the cost of management 0.42 marks, while among chimney-sweeps the management alone costs 4.01 marks per man insured and the accidents call for but a tenth of this sum. Small industries have the fewest accidents and the largest expenses. Here the burden is certainly disproportionate to the benefit and goes to handicap German industry, even though, as some suppose, the insurance here too comes eventually out of the wages. Workmen, also, have cause to complain; for their representation is often practically nullified. Employers refuse to let delegates leave their work, or note their absence against them for the future in a way that no law has

<sup>1</sup> Statistik des Reichsversicherungsamts, 1890.

been devised to check. Socialists, indeed, regard this law as a sort of partial payment of the debt that capital owes them, and accept it as an earnest of more to follow. They think the same of the Aged and Invalid Pension Law—a measure that is far more vast in scope and more uncertain in its action.

Before analyzing this new law it is essential to note the rate of wages which the great mass of unskilled laborers now earn throughout Germany. For this we have the statistical tables prepared by the government for the town funds.<sup>1</sup> These give the wages of unskilled men, women, boys and girls in 2395 districts, embracing the whole empire. From these I have calculated the average for each province; but since the districts vary in population and wages are higher where population is more dense, the averages are a little too low. Exact figures would require endless labor. I have thought it sufficient to append the wages in all cities of over 50,000 inhabitants, arranging these in the order of their respective political divisions from west to east, so as to exhibit at the same time the gradual fall in passing from the manufacturing to the agricultural and mining regions. The population, except for Berlin (1890), is for 1889.

From the second table it appears that, allowing with the accident and invalid laws 300 days to a year, the annual earnings of males in 12 towns range from 425 to 537.50 marks. In 33 others they are between 600 and 810 marks. Unskilled labor rises above the latter figure only in such exceptional places as Bremerhaven (900). In eight towns women earn less than 335 marks, in 35 others they earn from 355 to 540, in two from 555 to 600. From Table I it appears that in four provinces with 248 districts unskilled males earn less than 350 marks a year. In 24 provinces with 2040 districts the average wages fall below 550 marks, and in six others, including Berlin, Hamburg, Bremen and Lübeck, with 107 districts, they range from 555 to 680 marks. Women in 27 provinces earn less than 350 and in seven from 360 to 525 marks. The full significance of these figures will appear from a study of the Aged and Invalid Pension Law, but they show also how inadequate the sick-fund allowance of one-

<sup>1</sup> See Schmitz, Uebersicht der ortsüblichen Tagelöhne, 1887.

half or even the accident allowance of two-thirds of the wages must be in many cases. And yet, low as these wages are, I share the belief of many that this labor is as highly paid in proportion to its efficiency as our own.

TABLE I.  
WAGES IN PFENNIGS.

STATE OR PROVINCE.	MEN.			WO- MEN.	BOYS.	GIRLS.	NUMBER OF DISTRICTS.
	High.	Low.	Aver.	Aver.	Aver.	Aver.	
Alsace-Lorraine . . . . .	250	180	195	154	120	96	65
Rhine Province . . . . .	250	120	177	116	100	71	124
Westphalia . . . . .	250	100	150	112	90	75	113
Hohenzollern . . . . .	200	150	162	104	86	67	6
Hanover . . . . .	300	120	162	108	96	75	152
Bremen . . . . .	300	200	236	175	125	118	4
Hamburg . . . . .	250	180	220	135	92	92	7
Oldenburg . . . . .	220	130	177	120	98	79	24
Schleswig-Holstein . . . . .	270	150	200	127	90	75	27
Lübeck . . . . .	220	150	190	132	92	71	3
Mecklenburg-Schwerin . . . . .	200	120	154	104	82	71	101
Mecklenburg-Strelitz . . . . .	200	120	158	100	82	67	21
Brunswick . . . . .	200	100	170	100	96	71	58
Lippe-Detmold-Schaumburg . . . . .	175	100	140	100	82	67	25
Hesse-Nassau . . . . .	240	120	162	110	100	75	97
Hesse . . . . .	220	100	144	92	86	67	165
Baden . . . . .	250	130	170	120	96	75	104
Württemberg . . . . .	250	100	170	108	96	73	266
Bavaria . . . . .	265	80	165	112	86	71	188
Saxe-Coburg . . . . .	140	100	120	83	82	60	8
Saxe-Weimar . . . . .	180	130	152	96	88	71	8
Saxe-Meiningen-Altenburg . . . . .	190	80	142	83	82	67	73
Anhalt-Schwarz.-Sonders. . . . .	180	120	162	106	100	71	12
Schwarzburg-Rudolstadt . . . . .	200	75	127	90	82	71	25
Waldeck-Reuss . . . . .	220	95	138	96	82	71	98
Saxony (province) . . . . .	210	100	162	100	90	71	109
Saxony (kingdom) . . . . .	200	100	148	96	82	67	121
Brandenburg . . . . .	250	100	150	94	71	62	64
Berlin . . . . .	240	240	240	150	130	100	1
Pomerania . . . . .	200	95	116	75	67	54	41
West-Prussia . . . . .	180	80	127	75	67	50	78
East-Prussia . . . . .	200	80	110	67	62	42	85
Posen . . . . .	160	75	108	67	54	42	22
Silesia. . . . .	160	80	106	67	62	46	100

TABLE II.

DAILY WAGES IN PFENNIGE IN CITIES OF OVER 50,000 INHABITANTS.

NAME.	POPULATION IN THOUSANDS.	MEN.	WOMEN.	BOYS.	GIRLS.
Strassburg . . . . .	119	220	120	100	65
Mühlhausen . . . . .	75	220	180	120	100
Metz . . . . .	55	250	180	100	80
Cologne . . . . .	267	250	150	150	80
Düsseldorf . . . . .	133	240	150	120	80
Elberfeld . . . . .	122	240	150	100	80
Barmen . . . . .	110	240	150	100	80
Aix . . . . .	105	200	120	100	70
Crefeld . . . . .	105	240	150	120	100
Essen . . . . .	73	240	150	120	80
Dortmund . . . . .	89	200	140	120	80
Bremen . . . . .	124	250	200	125	125
Hanover . . . . .	155	200	150	120	100
Hamburg . . . . .	544	250	185	100	100
Altona . . . . .	139	250	180	100	100
Kiel . . . . .	59	270	160	100	80
Lübeck . . . . .	59	220	160	100	80
Brunswick . . . . .	94	200	150	100	100
Frankfort a.M. . . . .	171	240	170	140	100
Cassel . . . . .	69	212	138	122	90
Wiesbaden . . . . .	60	210	140	100	65
Mayence . . . . .	71	220	120	110	80
Darmstadt . . . . .	54	200	120	90	75
Carlsruhe . . . . .	68	200	130	100	70
Mannheim . . . . .	68	230	140	100	75
Stuttgart . . . . .	126	200	140	100	70
Munich . . . . .	291	230	150	110	100
Nuremberg . . . . .	129	200	130	90	70
Augsburg . . . . .	70	180	140	100	100
Würzburg . . . . .	59	170	140	100	75
Magdeburg . . . . .	180	200	140	120	100
Halle . . . . .	92	210	140	120	100
Erfurt . . . . .	63	160	90	70	70
Dresden . . . . .	269	180	120	90	70
Leipzig . . . . .	287	200	133 $\frac{1}{2}$	83 $\frac{1}{2}$	83 $\frac{1}{2}$
Chemnitz . . . . .	125	160	110	100	80
Berlin . . . . .	1574	240	150	130	100
Frankfort a.O. . . . .	57	140	100	60	60
Potsdam . . . . .	53	150	100	50	50
Stettin . . . . .	107	200	100	100	75
Danzig . . . . .	121	170	70 <sup>1</sup>	125 <sup>1</sup>	40
Königsberg . . . . .	161	180	125	65	55
Posen . . . . .	71	160	100	75	50
Breslau . . . . .	324	160	100	80	60
Görlitz . . . . .	61	160	100	80	60

<sup>1</sup> So in the official Uebersicht der ortsüblichen Tagelöhne; but this seems a transposition.

The Aged and Invalid Pension Law, to an examination of which I can now proceed, is the most gigantic — I had almost said the most monstrous — attempt to deal with the “little ones” of the state that the modern world has witnessed. One returns again and again to the study of the law disposed to hope and yet constrained to smile. That it can be efficiently executed, seems almost inconceivable. As I write, the law has been in operation for a week, and experts are still in doubt whether the number of the insured will be 11,000,000 or 13,000,000,<sup>1</sup> — whether it will cost the state in the first year six millions or ten. In the recent conference of the executive committees there was no unity of interpretation even as to the classes to be insured, and most thought that experience only could guide in so hazardous an experiment. Some experts have calculated that the state subvention will rise in 25 years to 70 millions; others think this figure will not be reached for three-quarters of a century; all are sure it will be reached some time. It is emphatically a leap in the dark. The government estimates that 600,000,000 stamps will be used in the first year to pay the premiums, and that a new building will be required at Berlin to hold the clerks who will try to keep the accounts of the new central office. What gain there is to justify so vast an undertaking will appear, if we examine not only its economic effect on the workman, the tax-payer and the state, but also the political power it places in the hands of the German bureaucracy. The following account of the law is essentially accurate, but details and exceptional provisions are sometimes passed in silence; for a full exposition of its 162 sections would prove more wearisome than profitable to the present purpose.

Practically every person between 17 and 70, male or female, who works for wages of less than 2000 marks annually is under this law.<sup>2</sup> The only important exception is government servants already insured, while the total is probably rather more than 25 per cent of the entire population. The law may be extended at

<sup>1</sup> Berlin is said to contain 328,822 persons subject to the law.

<sup>2</sup> *Reichsgesetzblatt*, May, 1889. [English translation in *Quarterly Journal of Economics*, vol. iv, pp. 103–128. — Eds.]

the discretion of the Federal Council to employers for account of others and to independent household industries, as well as to *diensmänner*,<sup>1</sup> washerwomen, nurses and the like. In so far as this possible extension is not made, members of these classes may insure themselves voluntarily, but at somewhat greater expense, unless they are over 40 years of age.

To consider the matter first from the workman's point of view, take the case of a young man of 17. On January 1, 1891, he is provided by the local office with a card of yellow pasteboard bearing upon its face his name, the name of the local office, the date of issue, extracts from the law and spaces for the weekly stamps in which his payments are to be made. He can get a new card whenever he wishes to surrender the old, and a receipt is given him for the latter. On the first working day he presents his card to his employer, who affixes to it stamps for the week's payment. The sum will vary according to his wages. Class I comprises earnings up to 350 marks annually, or 1.17 marks a day; for this the weekly fee is 14 pfennige. Classes II, III and IV represent respectively earnings of 350 to 550, 550 to 850 and over 850 marks; here the weekly fees are 20, 24 and 30 pfennige. Half of this payment the employer may deduct from the wages, half he is supposed to pay himself, though ultimately the whole tax will probably fall on the workman. Forty-seven weeks count as a "year," so that the annual fees in the four classes are 6.58, 9.40, 11.28 and 14.10 marks, of which the workman pays directly only one-half. Piece work is to be converted into time labor at the judgment of the inevitable official, and since each week is assessed and paid for separately, a single month may conceivably present fees of all classes. This will be noted in detail on the workman's annual receipts entered on his card by the local office.

The rates noted above are only temporary. They may be raised anywhere at any time as necessity may demand, and may be different in the same place for different industries. If each class is to pay its own way, it has been calculated that the fees

<sup>1</sup> Men who make a living by odd jobs.

must ultimately be 22, 38, 50 and 66 pfennige weekly,<sup>1</sup> or 10.34, 17.86, 23.50 and 31.02 marks annually. These figures should be made the basis of calculations on the benefits and burdens of the law, but I feel confident that even here the cost of management is underestimated. Yet, as the present effects of the law immediately concern us, I have in what follows taken only the workman's half of the present minimum charge as the cost of the insurance to him. It must be noted, however, that during military service payments are made for him by the state, and that during any sickness lasting more than eight days and less than one year they are remitted. Under these conditions, then, the workman must, by the normal fees or by voluntary contributions, complete at least 47 weeks for each of four successive years or lose all claim. When he has contributed 235 weeks, or five "years," including sickness and military service, he has a claim to the invalid pension; a claim to the age pension is obtained by 1410 weeks' insurance. Of the 235 weeks, 117 must be for actual work or military service; the rest (118 weeks) may be made up by his paying voluntarily, though unemployed, the full fee for Class II and a special tax, now eight pfennige weekly, to the empire—in all 28 pfennige. Thus to get an invalid pension in Class II, he or the government must have paid from 23.50 to 44.74 marks, and the employer from 23.50 to 11.70 marks. His contributions must continue so long as he is able to earn one-sixth of the average wages of the classes to which he has belonged during the past five years,<sup>2</sup> plus one-sixth of the local wages of unskilled labor. As long as he cannot do this, he gets a pension proportioned to the length of time he has contributed and to the class of his contribution—sickness and military service being reckoned as of Class II.

The pensions are calculated thus: the empire furnishes 50 marks annually as a subvention, the local office 60 marks, to which it adds for every week's contribution or sickness two, six, nine or thirteen pfennige, according to the man's wage class as

<sup>1</sup> Gesetz betr. Invaliditäts- und Altersversicherung, mit Erläuterungen von Bebel und Singer (Stuttgart, 1889), p. 87.

<sup>2</sup> These averages are fixed for the four classes at 300, 500, 720 and 960 marks.



shown by each week's stamps, while the government adds six pfennige for each week of military service. The following table will show in marks the invalid pensions attainable in each class after contributing from five to fifty years. It is true that a man will hardly ever be for all his life in one class, and so these pensions will seldom be actually paid; yet they give a good general idea of the material assistance that the law affords.

TABLE III.

EARNINGS.	CLASS I. Below 350 M.	CLASS II. 350-550 M.	CLASS III. 550-850 M.	CLASS IV. Above 850 M.
Pension after 5 "years"	114.70 m.	124.00 m.	131.15 m.	144.55 m.
" " 10 "	119.40	138.20	152.30	171.10
" " 15 "	124.10	152.30	173.45	201.65
" " 20 "	128.80	166.40	194.60	232.20
" " 25 "	133.50	180.50	215.75	262.75
" " 30 "	138.20	194.60	236.90	293.30
" " 35 "	142.90	208.70	258.05	323.85
" " 40 "	147.60	222.80	279.20	354.40
" " 45 "	152.30	236.90	300.35	384.95
" " 50 "	157.00	251.00	321.50	415.50

If a man should not become invalid until he had contributed 1410 weeks, or 30 "years," he would be entitled at 71 to an age pension without regard to his earning power. This is calculated in a similar manner. The empire furnishes 50 marks and the local office 60 as before, and the latter adds for each week of contribution or sickness four, six, eight or ten pfennige, according to the class shown by the stamps. If one remained always in the same class, the annual pension would be: Class I, 106.40; Class II, 134.60; Class III, 162.80; Class IV, 191 marks. All these sums are paid in monthly rates in advance by the post-office.

The former tables show that the greater part of German workmen never rise above Class II; and though accurate statistics are lacking, it is reasonably certain that far the greater part of them become wholly or partially invalid before 60. Comparatively few reach the age of 70 at all, but the last table shows that pensions attainable at this age in Classes I and II will not make the recipient independent of charity, and the

prospect of the aid cannot justify even a petty deduction from weekly earnings. It will therefore be for a man's interest, after establishing his claim by 235 weeks' contribution, to consider only the invalid pension. The age pensions will eventually play but a very small part in the scheme.

The age pensions, however, attain a temporary importance through a venturesome provision which opens them to all over 40 years of age who would have been insured under the law for 141 weeks during the years 1888-1890. Such a person need only complete a number of statutory "years" equal to the difference between his age and 71. Hence one who becomes 71 in 1891, and can bring the necessary proof of employment or sickness, will get his pension for nothing at all. There are said to be 173,000 such fortunate persons in Germany, and for some time to come, each year will see a great increase in the number.

There are a number of devious ways by which the deserving may miss, while the undeserving attain, the benefit of the law. The act is indeed not easily intelligible, and there are some disputes as to its meaning; but the socialist lawyers have already begun to provide the workmen with ingenious guides to its abuse, and no one will be permitted to suffer from ignorance of how to profit by it at the expense of the government and the tax-payers. Thus by beginning voluntary insurance at 36 and by paying just enough to keep the claim alive, one may for 92.25 marks get at 60 years of age a claim on 126.82 marks annually, while the full payments of 329 would establish a claim to but 194.60 marks. Those who feel their strength failing as they approach 40 years, the limit of voluntary insurance, will not neglect this, and the government will have many thousand "selected risks" not at all of its own selection.

Again, if by energy or ingenuity a pensioner should become able to earn the pittance represented by one-sixth of his normal wage and one-sixth of the local wage of unskilled labor, — and he must be helpless indeed if he cannot, the more as an official is the judge of his ability, — he immediately loses his pension. This may produce injustice that borders on the ludicrous. I find by calculation that a man in Hanover who had been earning

1500 marks annually for 15 years must be unable to earn 260 marks before he can get a pension of 201.60, hardly an eighth of his former earnings. But if, as would usually be the case, his powers gradually sank so that for the next five years he could not earn over 850 marks per year, he could get no pension if able to earn 203.34, while if able to earn anything less than this, he would get 206.45. Thus one who could earn 200 marks would be just 206.45 marks better off than one who could earn 204. With such premiums on shirking open to 11,000,000 or perhaps 13,000,000 men, either the really needy or the public purse must suffer, and very probably both.<sup>1</sup>

Vexatious, too, and apparently unjust, is a provision arbitrarily classing members of the free clubs, the most skilled men in German trades, with unskilled labor in Class I. Government organs openly proclaim that this, like similar provisions in bills now pending, is intended to undermine this last refuge of self-help for workmen.

A very venturesome provision and one that is liable to abuse is that which makes the invalid pensions available from 1892. Any insured person who becomes invalid between 1892 and 1896 and who has contributed for 47 weeks, may take to his credit all weeks for the preceding five years in which he would have been insured, or in which he was sick or in the army. In calculating his pension, he is considered to have contributed for these weeks at the rates of Class I. Thus a man of Class III who has paid 120 weeks by February 1, 1894, and can show that for 115 weeks between February 1, 1888, and January 1, 1891, he would have been insured under this law, will get, in pfennige,  $120 \times 9$  plus  $115 \times 2$ , or 13.10 marks, together with the 50 and 60 marks noted above—in all 123.10 marks annually. But it may be noted that it will often be hard and even impossible to get evidence of employment. Washerwomen, sewing-women, nurses and the like will hardly ever be able to avail themselves of this provision.

A large group of persons under forty years of age will be able to insure themselves, if not already invalid, by paying 28 pfennige

<sup>1</sup> Compare §§ 9, 16 and 33 of the law.

a week, and unless the local offices exercise very close control, the friends of such persons are likely to furnish them the means even if they are invalid. For by paying 131.60 marks for 470 weeks a man could get a claim to 138.20 marks annually. No one near forty will contribute voluntarily with the hope of attaining the age pension after 1410 weeks, but those who feel themselves growing weak will find here their opportunity.

A claim lapses in case one does not complete 47 weeks in each of four successive years, and it can be revived only after 235 weeks of contribution. Nothing is paid to those imprisoned or out of the country. Emigrants and banished socialists therefore will lose all that they have paid. One who draws a pension from the accident fund or any other source will get under this law only enough to make up 415 marks; which means that he will usually get no return at all for his payments. Women who marry after 235 weeks of contribution can recover their proportion of the fees, and the share of a husband or parent who dies without attaining a pension of any sort will be given to the widow or children. But if the marriage or death occur before the 235th week, as the former usually does, the payments are wholly lost to the insured.

In specified cases two-thirds of the pension may be paid in provisions and wares. The government first proposed to make such method of payment dependent on the choice of the insured, but the conservative "Cartel" in the Imperial Diet struck this provision from the bill, in spite of the stringent provisions of the pending Trades Bill against the truck system. Nominally the pension cannot be pledged or transferred; but since public charities may claim from it what they have granted to the pensioner, and since many invalids, with most of the aged, will still be dependent on charity, a great part of the whole law becomes illusory. It will merely shift a little more of the burden from the public to the shoulders of the poor. So far then as the insured are concerned, the law offers them no adequate return for the loss of an opportunity to accumulate a little independent capital. It will not alleviate misery or solve the social problem. Its excuse for being must be sought elsewhere. But the machinery of insurance must first be noticed.

The part of the employer ceases when he has bought the necessary stamps, affixed them and collected his half from the workman. It was indeed at first proposed by Prussia to put the management in the hands of the trade associations. But this part of the bill of 1887 met with uniform opposition. The associations were so clumsy and costly that they themselves shrank from the added burden, and, at the suggestion of Bavaria, the Federal Council created a third organization for labor insurance. To have placed the system in the hands of the efficient sick funds would have been to give the workmen too great a voice. Therefore the bill creates new local agencies, extends the functions of the imperial insurance bureau, adds imperial district inspectors and makes the post-office its bank, though temporary deficits in the local offices will be made good by the state.

In the local offices the stamps, cards and receipts are furnished. Each office invests its funds separately and gives an annual account to the central bureau. The power is given them to compel testimony, to examine employers' books and to exercise the general bureaucratic control characteristic of such German institutions. A certain uniformity of action is secured by the central bureau and the imperial inspectors, but this does not cover many points, and there are sure to be wide differences of interpretation. The local offices must invest at least three-fourths of their funds in German state securities. Should this materially enhance the price of government stock, the income will be proportionally reduced and a larger reserve will become necessary. The benefit of this will fall wholly to the state; the undivided burden will fall on the workman in the form of increased rates.

The practical working of the law will be somewhat as follows. A man who thinks he has a claim to a pension will present to his local office his receipt cards and whatever other evidence he may have. The sick-fund committee is then consulted, after which the whole evidence is submitted to the office where the last payment was made. Here the case may be summarily rejected, subject to appeal, or investigated. If the final decision is favorable, the pensioner gets a statement of what pension

is determined upon and how it has been calculated. An appeal here too is open to him, but will usually be fruitless, since an official has the casting vote. This decision is final, save that the imperial insurance bureau may order a new trial. If a petition is rejected, the claimant cannot present a new one within a year except for grave and obvious cause. If it is accepted, the pension is paid from the day of application monthly in advance through the post-office. So far as the beneficiary is concerned, that is all. It is for him to see how he can live on from \$25.53 per year in the lowest to \$99.60 in the highest conceivable case. For the office, however, the work has just begun. The post-office has paid the pension as it was ordered to do, but it must in turn be paid, and that not alone from the agency that issued the pension, but from all the offices where the man has ever been insured, according to their proportion of time and rates. The sickness allowance, also, and the share of the government for military service must be apportioned. Perhaps a million such calculations will eventually have to be made every year. For this purpose the documents are all sent to the central office at Berlin, and thence the various offices are notified what sums they are to pay to the post-office, or to a local office that may have returned payments to widows, orphans or young girls at marriage. The settlement with the post-office is made annually, but the post-office may demand quarterly advances; and where the local offices cannot pay, the state must advance the money and recover it when it can. The amount of calculation involved in this law paralyzes imagination.

A conservative estimate (in marks) of the sum required for the state subvention, less the receipts for the supplementary stamps for voluntary insurance (now eight pfennige weekly), is as follows :

1891 — 6,400,000 ; 1892 — 11,700,000 ;

1897 — 18,000,000 ; 1900 — 30,700,000 ;

1910 — 53,000,000 ; 1970 — 69,000,000 (the supposed maximum).

Many maintain with great probability that the maximum will be reached much earlier. If provision were made for widows and

orphans, as many desire, this and all the other charges would be doubled.<sup>1</sup> If the law is administered in the spirit in which it was conceived, the local offices will require ultimately at least 100,000,000 marks annually, besides their operating expenses. It is likely to be very much more. But if the whole cost, including management and lost interest, should amount to 300,000,000 marks annually, and we were to add to it the entire cost of the accident military pensions in all the German states, the total would reach but 339,000,000 marks, which is hardly more than half the United States pensions for military services alone.

From what source this vast sum will ultimately come — whether from the workman, from the employer or from the consumer — still perplexes German economists. The result is likely to depend largely on circumstances. With an active and elastic export trade the charge would fall largely on the consumer. With a narrowing market, such as 1889 and 1890 indicate for the near future, most of the burden will be thrown on the laborer; for under present conditions a rise in price will involve decreased consumption. The size of the pensions renders it improbable that domestic consumption will be directly stimulated by the law. Whatever trifling gain there might be from this source will be more than outweighed by the discouragement it offers to self-help and enterprise. German industrial capital has nothing to gain from this law, and save in exceptionally protected industries, no diminution of profits already meagre is possible. A very material sacrifice is involved, however, in the surplus which the local offices must accumulate. In view of the constant danger of such disturbing elements as war and contagion, they cannot operate safely on less than two years' reserve; and such a sum — perhaps 200,000,000 marks — taken from the active capital of the country will be seriously missed. Yet all estimates of the ultimate social or financial results of this law are premature. It is a step into the unknown that has never aroused the enthusiasm or even the confidence of the country.

In noteworthy contrast to the idea of these German measures

<sup>1</sup> The mathematics of the law are well set forth in *Das Reichsgesetz über die Invaliditäts- und Altersversicherung u.s.w.*; von Landmann und Rasp (Munich, 1891).

imposed from above is the last report of the Swiss insurance commissioners. It is therein stated as an observed fact that in spite of the action of the government, private insurance companies have become more popular in Germany; the government institutions do not do what was hoped of them; their management is expensive and clumsy, is slow in settling losses and does not meet commercial needs. The reference here is to the sometimes compulsory fire-insurance, but the statement applies to accident and age pensions as well. On the whole the commissioners conclude that it is better to leave Swiss conditions as they are, being convinced that "the insured will be better off under inspected free competition than if a monopoly or compulsory institute imposes on the people tariffs and instructions, and in case of differences the decision is with officials exposed to the danger of partisanship."

The Swiss commissioners touch the root of the matter. These laws are not likely, and I do not believe that they were designed, to benefit either the capitalist or the laborer. They will check, and perhaps they were meant to check, the development of an independent spirit among the workmen such as characterized the trade unions of the seventies. They will bind the workman by so many selfish ties to the state that his interests will be enlisted to maintain social and political order. The money that might be saved for a tiny capital, for emigration or for political use, is taken by the government in weekly doles from his reluctant hand, to provide what he has not asked, what he will probably never need and what in England is better attained by independent organization. Each new law has made the accumulation of capital harder to him and increased the pecuniary sacrifice of emigration. The more these workmen are "protected," the more incapable they become of resistance or of independent action. Individuality, ambition, and with them the productive power of labor and of wages, have grown and will grow less. Economically the Swiss are right. It is to the interests of "higher politics" that the German court and parliament look for justification.

B. W. WELLS.